

Form 990 Schedule R – Related Organizations Frequently Asked Questions and Tips

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These FAQs and Tips address various questions pertaining to Form 990 reporting of arrangements between a filing organization and its related organizations, including disregarded entities, exempt organizations, partnerships, trusts, and corporations. [Schedule R](#), *Related Organizations and Unrelated Partnerships*, is used to identify, and provide certain information regarding, related organizations and certain unrelated partnerships. These FAQs and Tips also address the general reporting requirements for group returns.

1. Schedule R requires certain information reporting regarding related organizations. What are related organizations for purposes of Schedule R?

Related organizations are organizations that stand in a parent/subsidiary relationship, brother/sister relationship, or supporting/supported organization relationship. Supporting and supported organizations are defined in section 509(a)(3) and 509(f)(3). Determination of the first two relationships depends on a definition of control set forth in the glossary and Schedule R instructions. The definition of control depends on whether the organization has owners or persons with beneficial interests.

2. How is control defined for nonprofit organizations and organizations without owners or persons with beneficial interests?

There is a parent/subsidiary relationship between such organizations if:

- one organization (the parent) has the power to remove and replace, or a continuing power to appoint or elect, a majority of the directors or trustees of the other organization (the subsidiary).
- there is a management or board overlap situation where officers, directors, trustees, employees, or agents of one organization (the parent) constitute a majority of the directors or trustees of the other organization (the subsidiary).

There is a brother/sister relationship between such organizations if the same persons constitute a majority of the members of the governing body of both organizations.

3. How is control defined for stock corporations or other organizations with owners or persons with beneficial interests?

There is control if one organization (the parent) owns more than 50 percent of the other organization (the subsidiary), as follows:

- more than 50 percent of the stock (measured by voting power or value) of a corporation;
- more than 50 percent of the profits or capital interest in a partnership (or LLC treated as a partnership); or
- more than 50 percent of the beneficial interests in a trust.

There are also several special rules for treating a partner or member (the parent) as controlling a partnership or LLC (the subsidiary):

- an organization that is one of three or fewer managing partners or managing members is deemed to control that partnership or LLC;
- an organization that is one of three or fewer general partners in a limited partnership is deemed to control that limited partnership; and
- the sole member of a disregarded entity (for example, a single-member LLC) controls the disregarded entity.

In the first two situations, control in fact typically exists regardless of the level of economic ownership in the entity.

4. What information about a related organization is required to be reported on Schedule R?

Parts I-IV of Schedule R all ask for the related organization's name, address, EIN, primary activity, legal domicile, and direct controlling entity. They also ask for certain other types of information depending on whether the related organization is a tax-exempt organization, a disregarded entity, a taxable corporation or trust, or a partnership for federal tax purposes, as follows:

- Tax-exempt organization:
 - its exempt Code section (such as 501(c)(6))
 - if exempt under section 501(c)(3), its public charity status
- Disregarded entities:
 - total income
 - end-of-year assets
- Taxable corporation or trust:
 - share of related organization's total income
 - share of related organization's end-of-year assets
 - percentage ownership
 - related organization's entity type (C corporation, S corporation, or trust)
- Partnership:
 - share of related organization's total income
 - share of related organization's end-of-year assets
 - related organization's predominant type of income (related, investment, or unrelated)
 - unrelated business income amount (if any) reported in the partnership's [Form 1065, Schedule K-1](#), box 20
 - whether the partnership makes disproportionate allocations
 - whether the filing organization is a general or managing partner or member

5. Schedule R, Part V also requires reporting of transactions between the filing organization and its related organizations. Do all transactions between the filing organization and its related organizations have to be reported?

No. Schedule R, Part V, line 1, requires check-box reporting of whether the organization was engaged in certain kinds of transactions with any related organizations. The following transactions must be reported in greater detail in line 2:

- all transactions described in line 1a, which includes all receipts or accruals of interest, annuities, royalties, or rent from a controlled entity under section 512(b)(13), regardless of amount.
- transactions described in lines 1(b) through 1(r) with controlled entities if the amounts involved during the tax year between the filing organization and a particular controlled entity exceed \$50,000.

Section 501(c)(3) organizations must report additional information on line 2. Such organizations:

- must report transactions with related tax-exempt organizations not described in section 501(c)(3) (including section 527 political organizations).
- in particular, must report the name of the related organization, the type of transaction, and the amount involved during the filing organization's tax year (even if the transaction was entered into by the parties in a prior year).
- should aggregate transactions of the same type with the same related organization.
- may disregard and not report transactions of a specified type with a particular organization if the total amounts related to those transactions during the tax year do not exceed \$50,000.

6. What is the difference between a related organization and a controlled entity for purposes of Schedule R? Why does the IRS require certain transactions between the filing organization and a controlled entity to be reported on the schedule, even if the transaction amount is less than the reporting thresholds applicable to other transactions with related organizations?

A related organization for Form 990 purposes is defined by the glossary and instructions (see [Questions 1 through 3](#), above). A controlled entity is one type of related organization, whether tax-exempt or taxable, that is defined in section 512(b)(13) to include subsidiaries that are more-than-50 percent controlled by the organization. Section 6033(h) requires controlling organizations to report certain controlled entity transactions, including loans, fund transfers, and receipt of interest, annuities, royalties, or rents from the controlled entity, on their Forms 990. [Schedule R](#) is used to report this information. Because receipts or accruals of interest, annuities, royalties, or rent from a controlled entity are subject to special tax treatment under section 512(b)(13), they must be reported regardless of amount.

7. Besides Schedule R, what are some other examples of other parts of the Form 990 and schedules that require the filing organization to provide information regarding certain of its related organizations?

- Part VII, *Compensation*—compensation from related organizations
- Part VI, *Governance*, line 1b— must take into account transactions with related organizations in determining independence of members of governing body
- Part VIII, *Statement of Revenue*, line 1d--contributions from related organizations
- [Schedule D](#), Part V, line 3--endowment funds held by related organizations
- Schedule D, Part X--payables to related organizations

- [Schedule H](#), Part VI (optional for 2008 but required for 2009)--states in which a related organization files a community benefit report on behalf of filing organization
- [Schedule M](#), Part I, line 32--whether the organization solicits, processes, or sells noncash contributions for filing organization

The same definition of related organization used for Schedule R (described in [Questions 1 through 3](#) above) is also used for these other reporting requirements.

Because information regarding related organizations is required in various parts of the form, the Sequencing List in the [Instructions](#) (page 5) recommends determining the related organizations as one of the first steps in preparing the Form 990.

8. Why does Part VI of Schedule R require information regarding certain partnerships even though they are not related organizations?

Some exempt organizations participate in joint ventures and other arrangements in which the organization does not have a controlling interest that satisfies the Form 990 definition of related organization. These arrangements might lead to activities that result in unrelated business income tax, private benefit, inurement, and other exempt status issues, especially when the organization does not control the venture or arrangement. Accordingly, Part VI of [Schedule R](#) was designed to collect information regarding participation in partnerships which are not controlled by the organization but through which the organization conducts significant activities. For this purpose, the organization must report information regarding unrelated partnerships through which it conducts activities constituting at least 5 percent of its total activities, measured by gross revenue or total assets, whichever is greater. Certain passive investment activities are excepted.

9. When is the filing organization required to treat the activities of a related organization as its own activities for Form 990 reporting purposes?

Whether and the extent to which an organization is required to include in its Form 990 the activities of a related organization depend upon the type of related organization.

- **Disregarded entities.** Except for reporting of disregarded entities in [Schedule R](#), Part I, disregarded entities are treated as part of the organization rather than as separate entities for Form 990 reporting purposes. Accordingly, all activities of a disregarded entity of which the filing organization is the sole member are to be reported in the filing organization's Form 990. See Appendix F, [Form 990 instructions](#), for more information on how activities of disregarded entities are to be reported on certain lines.
- **Partnerships.** In general, the activities of a partnership are treated as the activities of the filing organization, in accordance with the filing organization's proportionate interest in the partnership. See Appendix F for more information on how activities of partnerships are to be reported on certain lines.

- **Corporations.** In general, the activities of a corporation in which the filing organization has an ownership interest are not treated as the activities of the filing organization, unless the corporation is (1) acting as the filing organization's agent, or (2) the corporation is a sham (for instance, lacks a bona fide business purpose and is not conducting business).

10. Should a filing organization report on Schedule R other organizations in which it has an indirect ownership interest, such as second and third tier subsidiaries?

Yes, if the filing organization directly or indirectly controls the other organization. For this purpose, the constructive ownership rules of section 318 of the Code apply to determine control of a corporation, and similar principles apply to determine control of a partnership or trust.

For example, if the filing organization X owns 80 percent of a taxable corporation Y, and Y holds a 70 percent profits interest as a limited partner of a limited partnership Z, then X is deemed to own 56 percent of Z (80 percent of Y's 70 percent interest in Z). Thus, X controls both Y and Z, which are therefore both related organizations with respect to X. X would report Y in Schedule R, Part IV, and would report Z in [Schedule R](#), Part III.

These constructive ownership rules also apply to determine whether the filing organization is controlled by or under common control with another organization.

11. What are the related organization reporting requirements for organizations filing group returns?

Appendix E to the [Form 990 instructions](#) contains special group return rules for reporting information on behalf of a group in a group return, including special rules for [Schedule R](#). In general, central and subordinate organizations in a group exemption are not required to be reported as related organizations in Schedule R, Part II. All other related organizations of the central and subordinate organizations are required to be listed in Parts I, II, III, and IV, as appropriate. Transactions with such organizations must be reported in Part V whether or not a central or subordinate organization in a group exemption is required to be listed as a related organization.

12. What are the related organization reporting requirements for organizations filing Form 990-EZ?

There are only two lines in [Form 990-EZ](#) that pertain to related organizations. Line 45 asks whether the organization has any controlled entities, because the organization must file Form 990 and not 990-EZ if there was a transfer of funds with a controlled entity. Also, line 49 asks whether the organization (if a 501(c)(3)) made any transfer to a related tax-exempt organization other than a 501(c)(3) organization and, if so, whether the related organization was a section 527 organization.